

6 February 2020



RESPONSE TO TERRACOM'S ANNOUNCEMENT OF AN UNSOLICITED BID

Universal Coal Plc ("**Universal**" or the "**Company**") (ASX: UNV) acknowledges the announcement made by ASX-listed TerraCom Limited (ASX: TER) ("**TerraCom**") on 3 February 2020 (the "**TerraCom Announcement**") that it is intending to make an unsolicited offer for the shares it does not already own in the Company through its wholly owned subsidiary, TCIG Resources Pte Ltd ("**TerraCom Bidco**") for consideration of A\$0.10 in cash and approximately 0.6026 TerraCom shares per Universal share (the "**Possible Offer**").

The Company notes that TerraCom has not yet published an offer document in connection with the Possible Offer and that, accordingly, as at the time of this announcement no formal offer has been made to Universal's shareholders. As such, the TerraCom Announcement does not constitute a legally binding contractual offer that is capable of acceptance.

In order to assess the Possible Offer and independently advise all shareholders, a committee of the board of Universal has been constituted comprising Mark Eames, Paul Sanger and Celeste Van Tonder (the "**Bid Committee**"). The Bid Committee will give careful consideration to a complete offer document and a prospectus or prospectus-like disclosure document regarding TerraCom shares, if and when those documents are made available.

TAKE NO ACTION

Having considered the TerraCom Announcement, the Bid Committee advises Universal shareholders that as no formal offer has been made at this time, shareholders do not need to do anything.

The Bid Committee currently considers the proposed terms in the TerraCom Announcement to be inadequate and incomplete for the following reasons:

- The TerraCom Announcement states that an offer will be made at some point, only discloses "approximate" consideration, and suggests ambiguous conditions and a vague timetable. As such, it does not provide enough information for shareholders to understand the terms and conditions of the Possible Offer, including (without limitation) with regard to price, conditionality and timing.

- The implied offer price of approximately A\$0.293 per Universal share¹ (the “**Implied Offer Price**”):
 - o does not represent an appropriate control premium to Universal shareholders, the 24.6% implied premium² being materially below recent precedent ASX transaction premia in the metals and mining sector; and
 - o represents a discount to the price paid by TerraCom Bidco to Coal Development Holding B.V. for TerraCom Bidco’s initial 19.995% interest acquired in Universal as announced in TerraCom Bidco’s Notice of initial substantial holder on 14 November 2019³ (the “**November 2019 Acquisition**”).
- The Bid Committee is concerned that the Implied Offer Price may significantly undervalue the Company based on a range of valuation metrics and does not take into account the Company’s near-term growth profile. As such, the Bid Committee has appointed Deloitte Corporate Finance Pty Limited (“**Deloitte**”) to prepare an Independent Expert Report in order to determine whether the Possible Offer, should it be received, is fair and reasonable to Universal shareholders.
- The proposed consideration comprises a structure with a materially lower cash component relative to what was offered in the November 2019 Acquisition, providing Coal Development Holding B.V. with greater consideration certainty relative to what remaining Universal shareholders may receive from the Possible Offer.
- The Possible Offer materially increases the risk profile for Universal shareholders, as approximately two thirds of the offer consideration will be provided in a highly leveraged company⁴ with uncertain prospects.

¹ Based on the TerraCom Announcement stating the offer consideration of A\$0.10 per Universal share in cash plus approximately 0.6026 TerraCom shares per Universal share, and using the last close price of TerraCom shares on 31 January 2020 of A\$0.32 per share, the Implied Offer Price is approximately A\$0.293 per Universal share. Using the same formula and the 6 month VWAP price quoted by TerraCom as at 28 January 2020, TerraCom states the offer price is A\$0.335 per Universal share.

² Premium is based on Implied Offer Price of A\$0.293 and the last close price of Universal shares of A\$0.235 on 31 January 2020

³ The November 2019 Acquisition was first announced on 30 October 2019 and completed on 13 November 2019. Based on TerraCom Bidco’s Notice of initial substantial holder on 14 November 2019, total consideration was A\$34,620,382.36 for 104,467,056 Universal shares equating to approximately A\$0.331 per Universal share. Based on TerraCom’s Appendix 3B released on 14 November 2019, TerraCom issued 34,203,104 fully paid ordinary shares at a deemed value of A\$0.5061 per share which references a 6 month VWAP in the 30 October 2019 announcement. Therefore, the consideration per Universal share offered was approximately A\$0.166 in cash plus 0.3274 TerraCom shares per Universal share. Using the TerraCom last close price of A\$0.40 per share on 29 October 2019, being the day before the 30 October 2019 announcement, this equates to a total consideration of approximately A\$0.297 per Universal share.

⁴ Based on gearing level calculated as debt over debt plus market capitalisation and using Universal, along with ASX-listed coal peers Stanmore Coal Limited, Whitehaven Coal Limited, Coronado Global Resources Inc. and New Hope Corporation Limited, and Bathurst Resources Limited as benchmarks

- The consideration contemplated by the Possible Offer is significantly below the value of the previous offers made in the past 12 months for Universal shares where a change of control transaction was proposed.

Interim Chair Mark Eames said *“the directors of Universal who are not connected to the potential offer will, of course, consider carefully any bona fide change of control offer for the company that is for the benefit of all Universal shareholders as a whole. Further, if that is the case and the offer is fair and reasonable to the minority shareholders of Universal, then such an offer may very well also obtain the support of the Board, in the absence of a superior proposal. We have retained independent experts to value the business and we recommend that no shareholders take any action that would preclude Universal shareholders as a whole from making an informed decision, or allow insufficient time for a competing proposal to materialise”*.

The Bid Committee addresses in detail below some of the issues noted above, as well as certain statements made by TerraCom, in relation to the Possible Offer.

1. TerraCom Bidco has not published an offer document. Accordingly, no offer has yet been made by TerraCom Bidco

The TerraCom Announcement represents, at best, an intention to make an offer. Universal shareholders do not need to take any action until they are able to understand the actual terms and conditions that apply to the Possible Offer, if it is made.

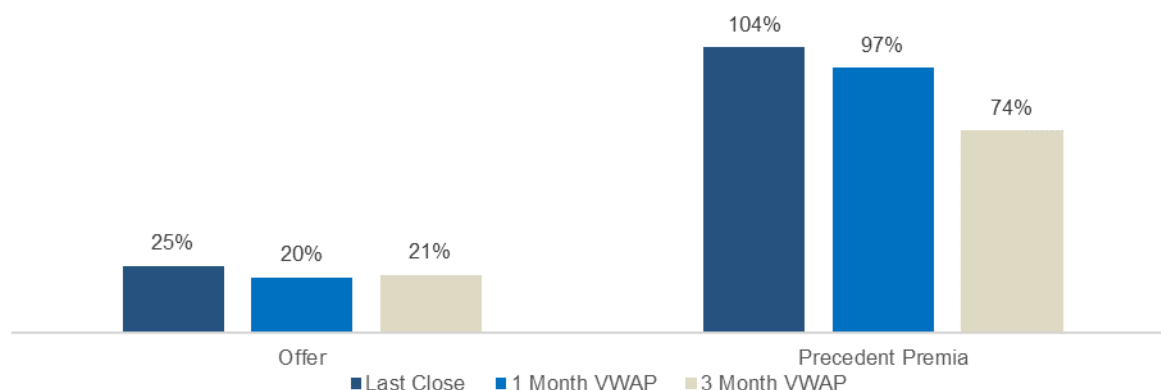
2. The Implied Offer Price is inadequate

The Bid Committee considers that the Implied Offer Price does not represent an appropriate control premium to Universal shareholders, with the 24.6% implied premium² to last close on 31 January 2020 being materially below recent precedent ASX transaction premia.

Recent unsolicited takeovers of ASX-listed entities in the metals and mining sector have required significant control premia in order to succeed. The premium of 24.6% implied by TerraCom Bidco's Implied Offer Price is significantly below that of recent unsolicited takeovers of entities listed on the ASX⁵:

⁵ Average premia based on unsolicited, successful transactions over A\$100 million announced in the past 5 years involving ASX-listed metals and mining companies as targets. Transactions include: Sandfire Resources Limited / MOD Resources Limited (January 2019), Readstone Corporation Pty Ltd / Atlas Iron Limited (June 2018), ERAMET SA / Mineral Deposits Limited (April 2018), Metals X Limited / Aditya Birla Minerals Limited (October 2015) and Zijin Mining Group Co. / Norton Gold Fields Limited (January 2015).

TerraCom Bidco's Possible Offer compared to recent precedent transactions



The Bid Committee will provide shareholders with Deloitte's Independent Expert Report upon completion which will evaluate whether TerraCom Bidco's offer, should it be received, is fair and reasonable to Universal shareholders.

3. The consideration under the Possible Offer comprises a structure with a materially lower cash component than the consideration in the November 2019 Acquisition

The price paid pursuant to the November 2019 Acquisition was A\$0.297 per Universal share³.

- The cash consideration as part of the November 2019 Acquisition comprised 56% of the total consideration³
- The proposed cash consideration as part of the Implied Offer Price of the Possible Offer comprises only approximately 34% of the total consideration based on TerraCom's last closing price on 31 January 2020 of A\$0.32 per share

This reduced cash component materially increases risks for Universal shareholders and provides Coal Development Holding B.V. with greater consideration certainty relative to what remaining Universal shareholders may receive from the Possible Offer.

4. The structure of the Possible Offer, including with regard to offer price, would confer additional equity risk for Universal shareholders if they were to accept the offer

TerraCom is a highly geared company compared with Universal and other ASX-listed coal producing companies⁴. TerraCom's market capitalisation as at 31 January 2020 was approximately A\$161 million, and it appears to have gross debt of approximately A\$168 million (US\$113 million per TerraCom's 1 July

2019 announcement assuming 0.6722 AUD to USD FX based on IRESS as at 31 January 2020), assuming TerraCom's convertible notes have not been converted to equity. Hence its current gearing ratio (debt to debt plus market capitalisation) is 51%. Existing debt includes a facility provided by OCP Asia (Singapore) Pte Limited ("**OCP**") for US\$80 million at an interest rate of 8.5% per annum plus special interest of 1% of gross revenue of TerraCom, with the convertible notes carrying a 9.95% interest rate.⁶ The OCP facility will require principal repayments (in addition to interest) over the next three years of approximately A\$119 million (assuming 0.6722 AUD to USD FX).

TerraCom's plan to divest some or all of its Mongolian interests⁷ may result in TerraCom producing solely from its Blair Athol mine, which, if this were to occur, would make the company highly dependent on a single mine supplying the Queensland seaborne thermal coal market.

TerraCom is an illiquid stock trading on average, over the last 12 months up to 31 January 2020, at approximately 195,000 shares per day, representing around 0.04% of the register per day.

For these reasons, if the Possible Offer were to succeed and Universal shareholders accepted into the offer, the risk profile for Universal shareholders would be materially higher compared to the risks of maintaining existing ownership of shares in Universal.

5. The TerraCom Announcement refers to the "overwhelming support from a number of highly credentialed institutional investors"

The TerraCom Announcement refers to the "overwhelming support from a number of highly credentialed institutional investors". However, it appears from the TerraCom Announcement, read as a whole, that the support is from only four shareholders. Three of those shareholders are related to each other⁸ while the other had its nominee directors on the board of Universal until they were removed at the AGM on 29 November 2019.⁹ Institutional investors and all other investors will not have a proper opportunity to evaluate the proposal until an offer document and disclosure statement are provided.

⁶ Refer to TerraCom Notice of Meeting on 18 October 2019 and AGM Results on 19 November 2019.

⁷ As disclosed in TerraCom's June 2019 quarterly announcement released to the ASX on 31 July 2019 where TerraCom has engaged advisors regarding a restructure of the Mongolian interests either through a demerger of 100% or a divestment of at least 51%

⁸ Brasidas Investment Management LLC, on behalf of Brasidas Asia Event Driven Fund LP; Brasidas Investment Management LLC, on behalf of Walleye Manager Opportunities LLC and Brasidas Investment Management LLC, on behalf of Boothbay Absolute Return Strategies LP, being private funds advised by Brasidas Investment Management LLC (refer to TerraCom announcement 3 February 2020 and Form 603 Notice of initial substantial shareholder notice for Universal dated 2 May 2019 and lodged with Universal on 3 May 2019).

⁹ African Minerals Exploration & Development Fund SICAR on behalf of Coal Development Holdings B.V. (refer to TerraCom announcement 3 February 2020 and Universal announcement lodged on 2 December 2019).

6. No engagement with the board of Universal

No reason is given for not approaching the board of Universal in respect of the Possible Offer. Based on the detail in the TerraCom Announcement and the reasonable review process that any engagement would involve, it may be that such an overture was considered unlikely to succeed.

The Bid Committee will keep shareholders informed of all material developments relating to the Possible Offer. In order for the Bid Committee to evaluate the Possible Offer, Treadstone Resource Partners has been appointed as financial advisor, and Mills Oakley and Macfarlanes LLP have been appointed as legal advisors regarding the Possible Offer.

The Company remains focused on delivering on its business plan as an independent entity, seeking to deliver growth and income to its shareholders and holders of its CDIs.

The Bid Committee

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About the Company:

Universal Coal Plc (incorporated and domiciled in the United Kingdom) is an ASX listed mid-tier +10Mtpa coal mining company (ASX:UNV) which operates three thermal coal mines in South Africa; the 4.0Mtpa opencut Kangala Colliery, the 3.7Mtpa opencut and underground New Clydesdale Colliery and the 3.4Mtpa opencut

North Block Complex. Universal's fourth colliery is currently under construction and is set to deliver coal product at the rate of 1.2Mtpa from November 2019.

Universal's mines include both opencut and bord and pillar underground operations that are delivering product into the South African and international coal markets. They have an executive team possessing a proven track record of developing and managing profitable operations with experienced in-house technical and commercial competencies and good relationships with service providers, traders and end users.

Universal is delivering strong positive cash flow from its operations and is committed to building a sustainable mid-tier coal mining company providing investors with exposure to profitable coal mines.

Further information on Universal can be found at www.universalcoal.com

Important information

This announcement (including information incorporated by reference in this announcement), and other information published by Universal may contain statements that are or may be deemed to be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "estimates", "projects" or words or terms of similar substance or the negative thereof, are forward looking statements. For the avoidance of doubt, forward-looking statements include, but are not limited to, statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Universal group of companies or its operations; and (iii) the effects of government regulation on the Universal group of companies or its business.

The forward-looking statements are not guarantees of future performance. Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied in any forward-looking statements. These factors include, but are not limited to, changes in political and economic conditions, changes in the level of capital investment, retention of key employees, changes in customer preferences, success of business and operating initiatives and restructuring objectives, impact of any acquisitions or similar transactions, changes in customers' strategies and stability, competitive product and pricing measures, changes in the regulatory environment, fluctuations of interest and exchange rates, and the outcome of any litigation.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date of this announcement. All subsequent oral or written forward-looking statements attributable to any member of the Universal group of companies or any of their respective directors, officers or employees or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statement above. Universal disclaims any obligation to update any forward-looking or other statements contained in this announcement, except as required by applicable law.

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share for Universal for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Universal.

Certain figures in this announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different places may vary slightly.

Universal has relied on publicly available information and statements issued by TerraCom in this announcement for which TerraCom is responsible.